

ASSOCIATION OF LEGAL PROFESSIONALS OF SAN JOSE ("ALP")

June 18, 2015

Jennifer Schembri  
Interim Director  
Office of Employee Relations  
City of San Jose  
200 E. Santa Clara Street, 3<sup>rd</sup> Floor Wing  
San Jose, California 95113

**Re: ALP's Retiree Healthcare and Dental Proposal**

Dear Ms. Schembri:

Please find attached ALP's proposal to replace the existing defined benefit plan with a **sustainable** defined contribution plan. Significantly, ALP's proposal meets or exceeds **all** the requirements in Measure B applicable to retiree healthcare.

Attachment "A" sets forth the specific proposal terms and conditions. Attachment "B" sets forth the numerous advantages of the proposed plan, which include:

- Plan simplicity,
- Future costs that are reasonable, clear and predictable, and
- Significantly reduced costs to the City and ALP members,
- Shifting of **all** investment and medical inflation risks to ALP members.

The proposed plan also provides a *real* benefit that would make the City's compensation package more competitive if the City were to extend it to new employees.

The proposed plan contains a number of important advantages for both the City and ALP members. It also requires tough compromises by both parties. ALP is willing to make the tough compromises to resolve the complex, longstanding retiree healthcare problem. ALP hopes the City willing to do the same.

Very truly yours,

Association of Legal Professionals



VERA M. I. TODOROV  
President

Norberto Dueñas  
David Sykes  
Rick Doyle

## Attachment A

1. The existing defined benefit retiree healthcare/dental plan would be closed to ALP members. No ALP member would be entitled to any benefits under the existing defined benefit plan.
2. Tiers 1 and 2A would become members of a new defined contribution plan.
  - a. The new plan would be a VEBA, an HRA, or some combination of the two.
  - b. The account would be: (i) portable, (ii) individual and self-directed in terms of investments (similar to the deferred compensation plan), and (iii) tax advantaged (pre-tax contributions/withdrawals for healthcare costs would not be taxed).
  - b. Each member would contribute 3% of his/her annual compensation. The City would provide a matching 3% contribution.
  - c. The City would return, *without interest*, all contributions to the existing defined benefit plan made by a member. The City would deposit this amount into the member's account.
  - d. The City would deposit the following amount, *without interest*, into the account of each Tier 1 member with 5 or more years of service at the time of the settlement:

For each year of service 2.5% of the City's contribution to the existing defined benefit plan made on the member's behalf.
  - e. This provision fairly recognizes that Tier 1 members with more years of service have relied to their detriment on receiving the current defined contribution benefit for a longer period of time.
  - e. Following retirement or other separation from the City, members could use account assets to pay for permitted post-employment health-related expenses, including premiums for healthcare and dental coverage. Retirees and their spouses/dependents would have the right to:
    - i. Purchase any City healthcare/dental plan available to active employees at the same total rate (City + employee cost), and
    - ii. Elect to enter or exit coverage on an annual basis or upon a qualifying event.
3. It would be up to the City to decide whether to extend the new defined contribution plan to current Tier 2B employees and to new employees hired after the settlement.
4. No current or future ALP member would be responsible for the cost of any other retiree healthcare benefit provided to any current, future or past employee and/or retiree.
5. Measure B would be resolved with no changes to Tier 1 retirement benefits and contributions. Proposed changes to the retirement benefits of current Tier 2 members must be acceptable to those members and must not have any adverse impact on Tier 1.
6. ALP's intent is to negotiate a settlement that replaces a vested right with a substantially equal benefit. The City would agree to indemnify, hold harmless and defend ALP from any and all claims by any past or current employee related to giving up or changing a vested right.

## Attachment B

### ALP's Proposed Plan Benefits

		ALP's Proposed Defined Contribution Plan	Existing Defined Benefit Plan
1.	<b>Measure B:</b> Existing and new EEs must contribute 50% of the cost of retiree healthcare (Section 1512-A).	Achieves 50/50 cost sharing split.	Requirement not achieved. Combined medical/dental contribution rate higher for City. City makes additional payment for Tier 2B unfunded actuarial liability.
2.	<b>Measure B:</b> Plan must be actuarially sound, minimize risk to City and residents, and be reasonable in light of the economic climate (Section 1513-A).	Exceeds requirement. Eliminates risk to City and its residents.	Requirement not achieved. Existing plan is not actuarially sound. Costs are not sustainable in the current economic environment.
3.	<b>Measure B:</b> EEs must share in investment, mortality and other risks and expenses (Section 1513-A).	Exceeds requirement. Shifts all of investment and healthcare inflation risks to EEs.	City and taxpayers continue to bear part of investment and healthcare inflation risks and associated expenses.
4.	<b>Measure B:</b> Achieve full funding based on a median economic planning scenario (Section 1513-A).	Achieves full funding requirements under any economic scenario.	Full funding is not achievable without funding rate increases that are unsustainable to the City and EEs.
5.	<b>Measure B:</b> Plan costs are equitable as to current and future plan members and taxpayers (Section 1513-A).	Exceeds requirement. Benefit would be the same for all EEs. Intergenerational cost transfer is eliminated.	Requirements not achievable. Plan costs continue to be inequitable as between current and future employees, as well as retirees.
6.	Tiers 1 and 2A Unfunded liability.	Eliminated.	Continues to increase.
7.	City's 16% FY 2016 unfunded actuarial liability payment for Tier 2B.	Eliminated.	Contribution for unfunded actuarial liability for Tier 2B continues and increases in future years.
8.	Tiers 1 and 2A FY 2016 contribution rate <b>at full ARC</b> City = 11.61% EE = 10.47%	8.61% rate <b>reduction</b> for City. 7.47% rate <b>reduction</b> for EEs.	Unsustainable rate increases occur in order to reach full ARC.
9.	Tiers 1 and 2A FY 2016 contribution rate <b>as capped per agreement with bargaining units</b> City = 9.41% EE = 8.79%	6.41% rate <b>reduction</b> for City. 5.79% rate <b>reduction</b> for EEs.	Either unsustainable rate increases occur in order to reach full ARC or "cap" continues, which results in not achieving full funding.
10.	Vested rights - comparable benefit requirement.	Plan as proposed provides a comparable benefit.	N/A